Securities Industry

TRENDS

An Analysis of Emerging Trends in the Securities Industry
Produced by the SIA Research Department

Vol. XVII, No. 5 October 15, 1991

BACK IN THE BLACK

First Half 1991 Securities Industry Profitability

Highlights

1. Based on first half results annualized, the securities industry is on target to match 1986's record pre-tax profit of $5.5 billion on a record $60 billion of revenues. Boosting the climb, retail-oriented firms performed exceptionally well...across the board.

2. National Full Line firms, Regional firms and Discounters are all headed toward a record profit year. Even the Large Investment Banking firms and other capital market-oriented firms, such as New York City-based Regionals, are close to tying their prior record profit year. Of course, profits are a different measure than ROE.

3. Consolidation in the securities industry appears to have bottomed out during first half of 1991. By mid-year, the number of NYSE members seems to have stabilized and the shrinking employment trend finally slowed down, and may even have reversed according to the raw data.

4. Almost all business segments generated vastly improved revenue across the board this year relative to a poor 1990. On an annualized basis, 1991 shows improvements of about 16% in commissions; 18% in trading, and 40% in underwriting (55% in equity underwriting revenue). Only margin interest and commodity revenues declined.

5. Although private placement volume has been almost cut in half the past two years, the one growth area is the new Rule 144A private offerings. Big names from several continents which have tapped this market to date include: British Aerospace, Toyota, Sony, Samsung, BMW, etc.

6. Every major expense category except compensation, which is linked in many cases to production, showed further dramatic declines this year. Cost cutting, initiated since the crash, is still having an impact during 1991.

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BACK IN THE BLACK

Finally, bottom line black ink is back on the securities industry's income statement. After three years of frightful financials, the sturdy profits posted on securities firm quarterly P&Ls this year was a welcome relief.

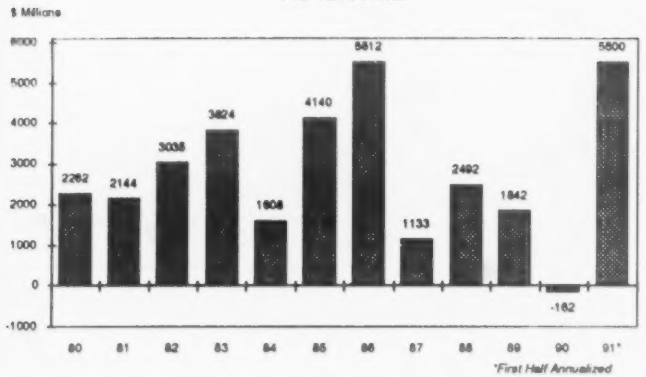
Annualized first half earnings paint a promising pictorial (see following charts). Although the hazy, lazy days of summer tempered certain earnings streams' previous pace, the annualized results still project a resurrection of industry profit potential. The 322 NYSE member firms dealing with the public (also referred herein as "all firms" or "total industry") are on target to match 1986's record profits of $5.5 billion, pre-tax, although five years later. Boosting the climb, retail-oriented firms performed exceptionally well...across the board.

The National Full Line Firms not only ended a four-year fiasco, as a group they're on target to outdistance their all-time record profit year, 1986. A similar scenario is being painted by the Regionals. If their second half profits match their first, it would lock in an impressive year-to-year profit rebound; again, breaking their 1986 record.

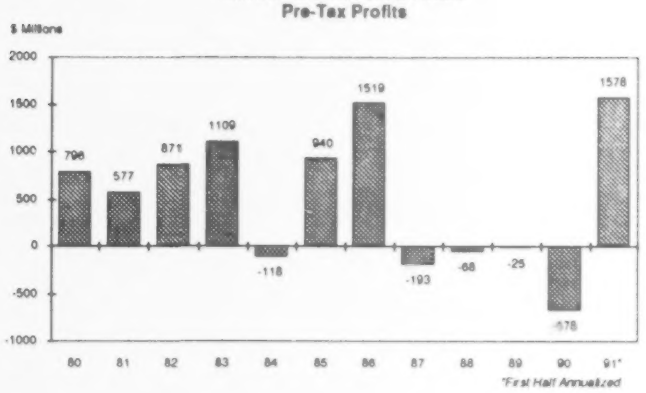
Meanwhile, the Discounters are on an unbelievable roll. Their first half profits are already 24% ahead of last year's *full-year* profits and nearing the total for their best ever full-year results (again, 1986). If momentum's maintained, 1991 would show profits nearly double that of 1986.

The institutional firms are also basking in a banner year, though the first half profit pace is just shy of a record stride. The Large Investment Banking Firms' (LIBs) first half gait could produce over a four-fold annual profit increase and place 1991 second on their record books. Similarly, the New York City-Based Regionals are also heading toward their next to best ever profit year compared to 1990's negative returns.

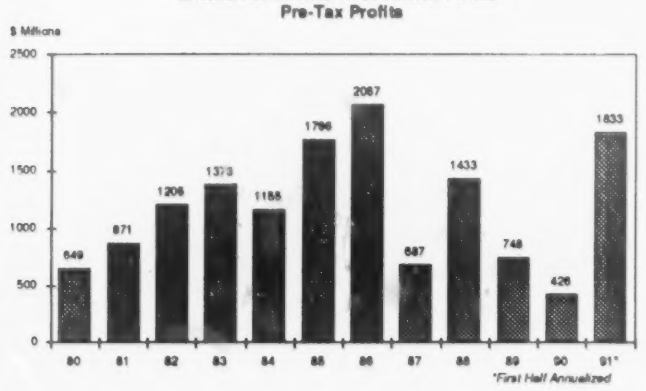
ALL NYSE FIRMS
Pre-Tax Profits



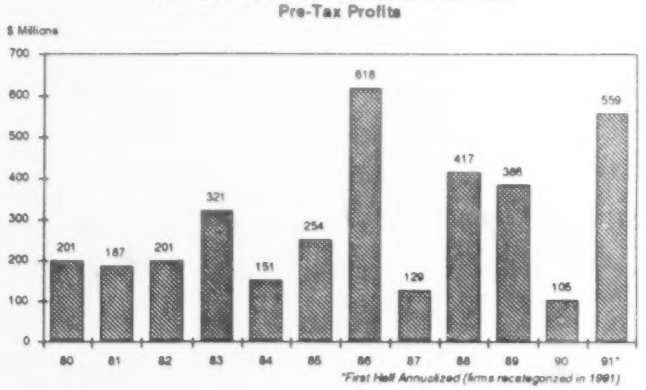
NATIONAL FULL LINE FIRMS
Pre-Tax Profits



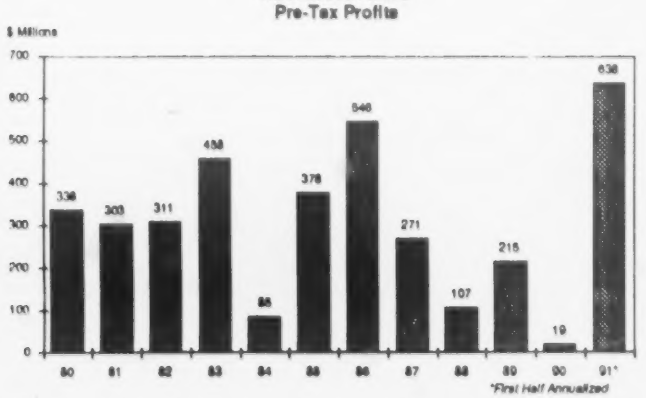
LARGE INVESTMENT BANKING FIRMS
Pre-Tax Profits



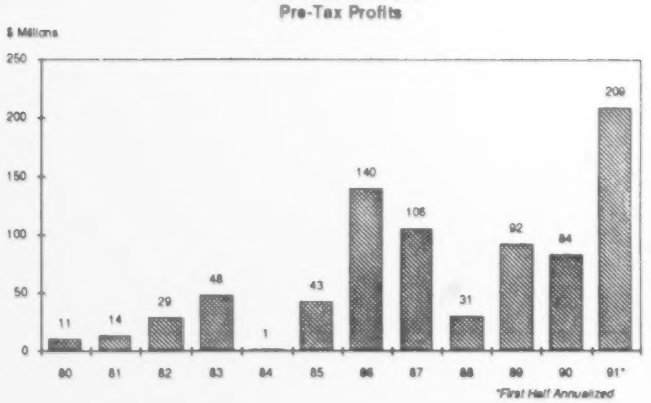
NEW YORK CITY-BASED REGIONAL FIRMS
Pre-Tax Profits



REGIONAL FIRMS
Pre-Tax Profits



NYSE DISCOUNTERS
Pre-Tax Profits



BOTTOMING OUT

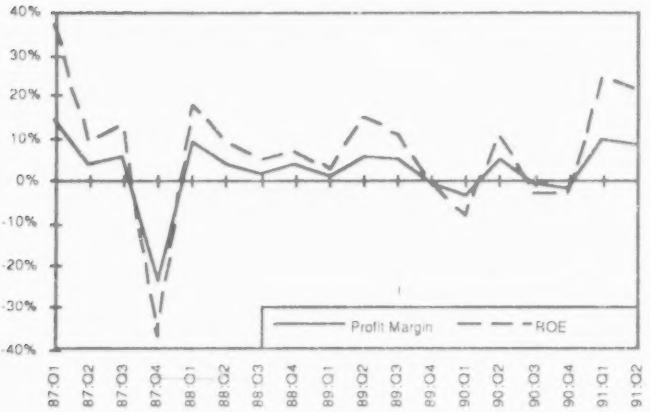
But before we march down optimistic primrose paths, a reflection on the industry's sobering, and very recent, past is in order. As reported in the April 9 issue of *Trends*, last year was the worst on record for the securities industry. Some sobering reminders include: NYSE member firms posted a record $162 million pre-tax loss, the first annual red ink since 1973. The only profitable quarter last year was Q2. The industry's equity capital fell to the lowest level since 1986; total capital fell to a post-crash nadir. Securities industry employment contracted 20%, to 1984 levels, in just three years' time.

Further, commissions declined each quarter last year, bottoming at a mere $2 billion in Q4 — the same level earned quarterly from late 1982 to early 1984. For the year, commissions were down 13% from 1989, a sharp 30% below 1987's peak, and were barely 16% of total revenue. The number of NYSE member firms dealing with the public contracted to the lowest on record while NASD membership fell to 1984 levels. That's the bad news (or some of it).

The good news, as we've seen, is that the bad news finally "bottomed out." The industry's 1991 first quarter pre-tax profits of $1.4 billion was the best showing since first quarter 1987. The second quarter's $1.3 billion profit was almost as strong as Q1. In stark contrast, prior to this year, the industry incurred pre-tax losses in four of its past five quarters. The profit rebound was the direct result of three years of cost cutting combined with a surge in primary and secondary market trading volumes.

On the margin, profitability showed healthy increases also. Pre-tax profit margins and return on equity (ROE) of 9.5% and 24.6%, respectively, in Q1 and 8.8% and 21.4% in Q2, were the best since 1Q-87 also (see following chart). The first and second quarters were also the 6th and 8th best quarters ever in terms of total profits.

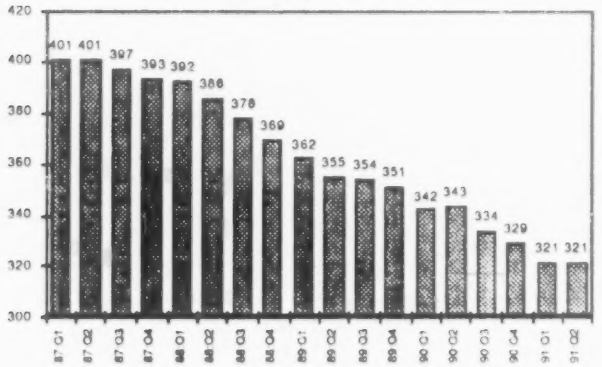
PRE-TAX PROFIT MARGIN & RETURN ON EQUITY



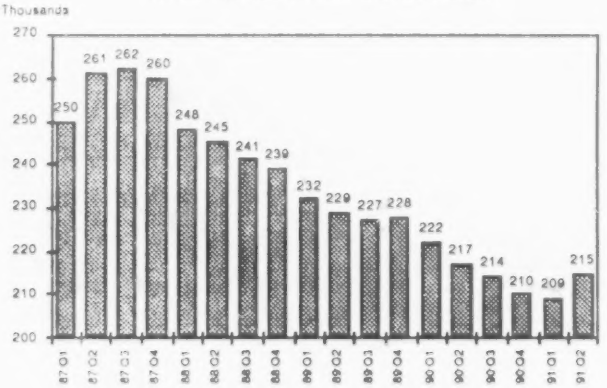
Of course, when 1991's bull market arrived, it was to a leaner, and more compact, securities industry. The number of New York Stock Exchange member firms, and the employees working for them, contracted 20% since the crash. That's a loss of one out of five firms and one out of five jobs. Even a broader-based measure, the number of NASD member firms, shows a similar 18% decline, from just over 6,700 firms in 1987 to about 5,500 this summer.

NYSE MEMBER FIRMS

(Doing a Public Business)



NYSE MEMBER FIRM EMPLOYMENT



This level of consolidation translates into fewer seats at this year's banquet table...everybody's plate was that much fuller. And while the revenues and profits of the best year in a while can now be divvied-up among fewer firms, many firms also have smaller payrolls and overhead to charge against these earnings.

NYSE BROKER-DEALER INCOME STATEMENT

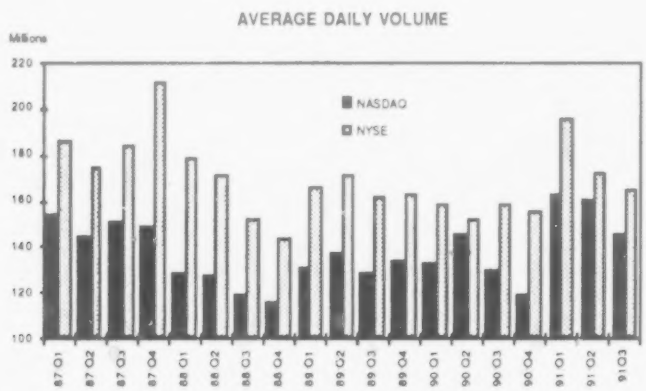
(In $ Millions)

REVENUE:	1990	1991*	90-91* % Change
Commissions	8,878.1	10,614.6	19.6%
Trading Gains	13,175.0	15,976.8	21.3%
Investment Gains	-283.1	1,014.0	NM
Underwriting Revenue	3,243.3	5,312.2	63.8%
Margin Interest	3,075.3	2,596.4	-15.6%
Mutual Fund Sales	1,669.1	1,905.2	14.1%
Fees, Account Supervision	2,241.0	2,381.8	6.3%
Research	18.4	20.8	13.0%
Commodities	1,685.8	1,279.4	-24.1%
Other Securities Related	17,389.3	16,106.0	-7.4%
Other Unrelated	2,941.5	3,018.2	2.6%
TOTAL REVENUE	54,033.7	60,225.4	11.5%
EXPENSES:			
Total Compensation	17,715.2	20,498.0	15.7%
RR Compensation	6,867.6	8,257.6	20.2%
Clerical Compensation	8,789.3	9,906.0	12.7%
Floor Costs	1,731.0	1,745.6	0.8%
Communications	2,221.7	2,117.0	-4.7%
Occupancy & Equipment	3,092.2	2,920.6	-5.5%
Promotional Costs	878.4	827.0	-5.9%
Interest Expense	22,717.2	19,974.6	-12.1%
Errors, Bad Debts	296.3	347.0	17.1%
EDP	684.6	665.4	-2.8%
Regulatory Fees	427.7	443.2	3.6%
Non-Recurring Charges	389.5	44.2	-88.7%
Other	4,041.7	5,143.0	27.2%
TOTAL EXPENSES	54,195.5	54,725.6	1.0%
PRE-TAX NET INCOME	-161.8	5,499.8	NM

Source: SIA Securities Industry DataBank **First Half Annualized*

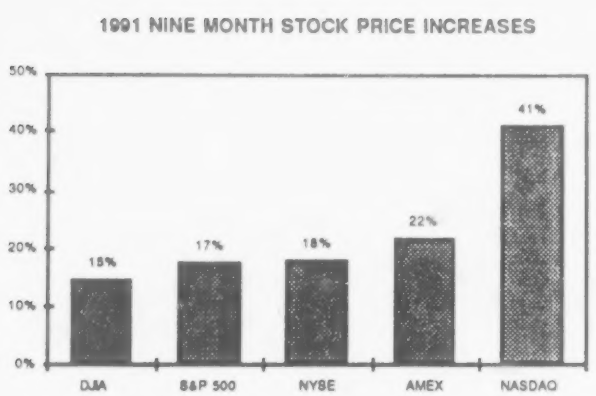
EQUITY WAS KING

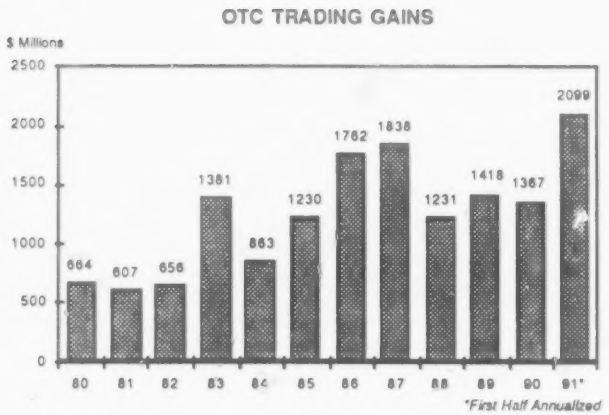
As seen in the preceding table, most business segments, virtually across the board, generated vastly improved revenue this year. A half-year of investor uncertainty, and resultant investment indecision, regarding the U.S.-Iraq-Kuwait situation evaporated overnight.. the night of the Baghdad blitzkrieg. The few fence-sitting stragglers toppled off their perches and back into the market when, and as swiftly as, the allies advanced on enemy ground. Within days, it was clear that equity was again king. Commissions jumped 33% during this first quarter to a post-crash high of over $2.7 billion. Granted, it was rising off a fourth quarter 1990 post crash-nadir, a low not seen since the early 1980s. Nevertheless, the rising secondary markets and increased volume were impressive and gave much of the industry's other business lines a high voltage jump-start.



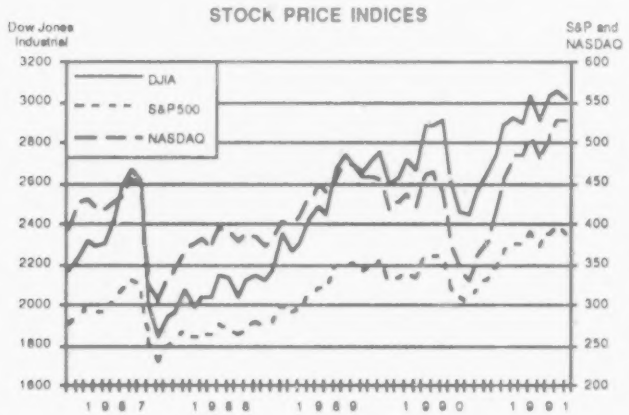
As seen above, the heady volume in 1Q-91 led to the sharp uptick in commission revenues. Second quarter volume dissipated somewhat, as did commission revenue (down slightly to $2.6 billion), but was still the best business in quite a while. Stock prices also got boosted during the buying spree, bringing equity-starved corporate issuers, long on the sidelines, back on the road to issuing equity.

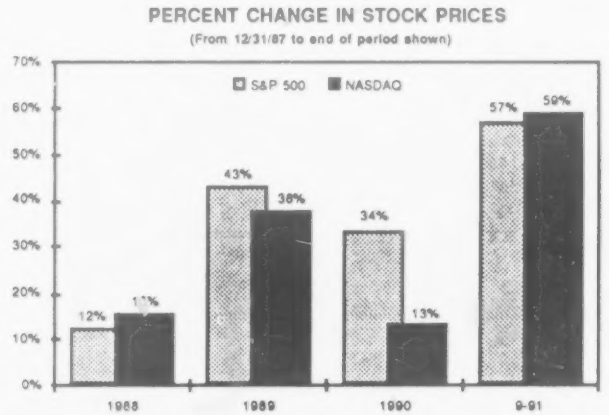
The phenomenal rise in the smaller "cap" NASDAQ market in 1991 led to record quarterly gains in OTC market making. The NASDAQ Composite Index booked a 41% gain from January to September, double the also impressive 17-18% average gains on listed issues. On an annualized basis, OTC trading gains will exceed $2 billion this year, 53% ahead of last year's pace and 14% in excess of 1987's record level.





In fairness to listed issues, however, over-the-counter stocks were mostly playing catch-up with their higher cap brethren this year.* The NASDAQ Composite was up only 13% from the end of 1987, right after the crash, through the end of last year vs 34% for the Standard & Poor's 500. The culprit was 1990's brutal bear market which pummeled all equities but particularly smaller, over-the-counter issues. Through September of this year, the S&P 500 and NASDAQ indices are both almost 60% above their 1987 closing prices.





As mentioned, 1991's phenomenal equity price level increases, often 20% to 40%, jump started a exceptional level of equity offerings. Enticed by the best P/Es in years, and burdened with high debt to equity ratios, corporate CFOs began funding their financing needs in the equity markets at a pace not seen since the mid-Eighties.

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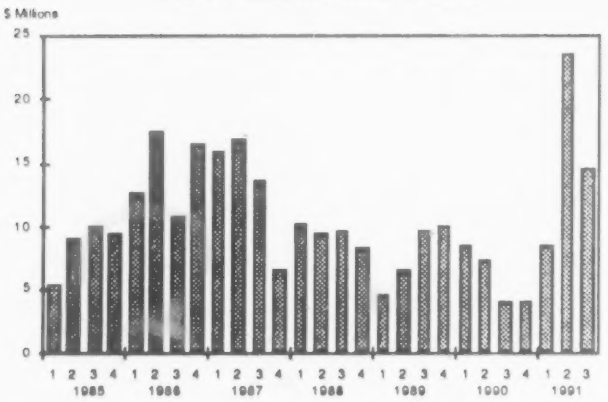
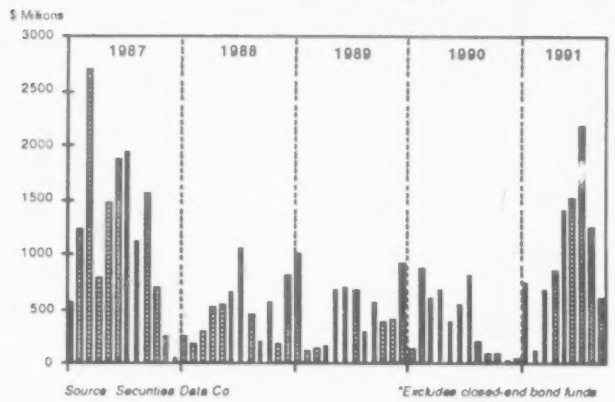
* See SIA's *Investor Activity Report*, August, 1991, for fuller details.

EQUITY UNDERWRITING VOLUME



INITIAL PUBLIC OFFERINGS*

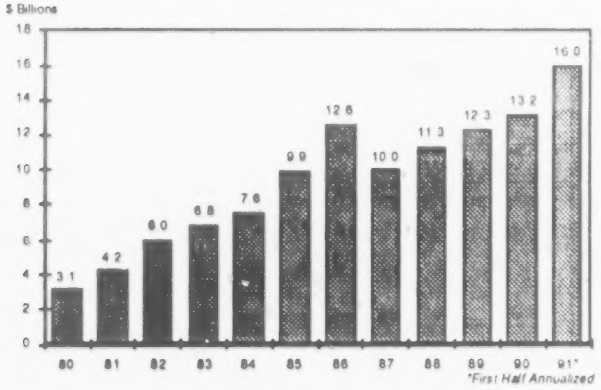


Meanwhile, start-up companies, caught in a double squeeze from the bank credit crunch while simultaneously being shut out of equity markets since the crash (from prohibitive dilutions and investor disfavor), came storming in with initial public offerings at near-record monthly clips.

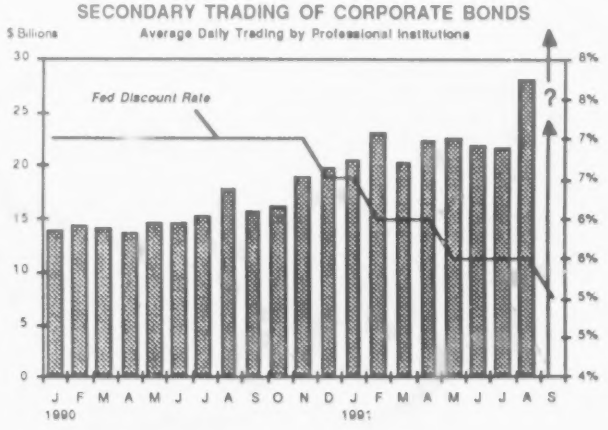
DEBT's OWN THRONE

While equity was king this spring, debt was perched on a throne of its own. An accommodating Federal Reserve Board of Governors, more worried about impending recession than distant inflation, kept the discount window wide open while lowering bit by bit its lending rate. The result was a royal bond market rally.

TRADING GAINS



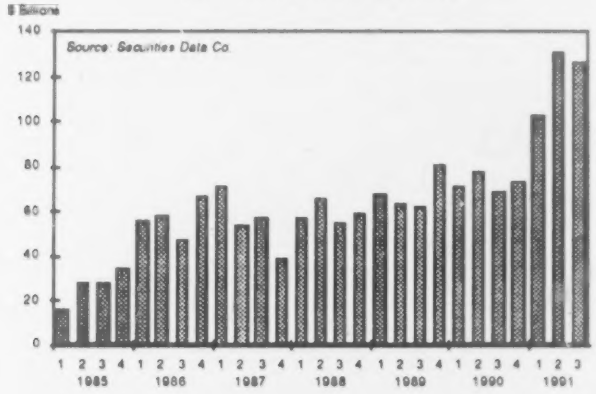
SECONDARY TRADING OF CORPORATE BONDS



At the pace set in the first half, all trading gains are headed for a record year. Since the bulk of these gains are from debt trading, and since the Fed lowered the discount rate again in September, to 5%, its lowest level in 18 years (with widespread

speculation of further easing to come), the record pace should hold all year. Again, the benefits were not felt solely in the secondary markets. Also, corporate bond underwritings this year are running nearly double the average of the past few years.

CORPORATE DEBT ISSUANCE



SYNDICATE BONANZA

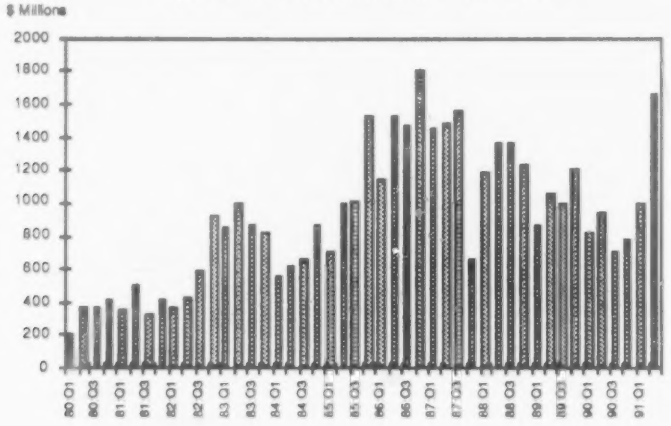
After the first quarter set a record for volume of new issues, the second quarter broke that record...both for total volume and for debt and equity volumes. As mentioned, the outlook for the second half is superb -- third quarter underwriting volume is the second best ever and only a shade below the second quarter's record total. With the Fed contemplating another downward rate move on top of its recent easing, CFOs will be sorely tempted to initiate some serious bond refundings. Also, syndicate department equity calendars are becoming fully booked again, signalling a strong fourth quarter, at least until the perennial year-end holiday slowdown.

Of course, corporate syndicate departments and the industry's income statement were direct beneficiaries of this activity. Total underwriting revenue rose 30% in the first quarter to $1 billion and an additional 40% in the second quarter to $1.7 billion, the second highest ever. Nearly $600 million of the second quarter's total was from equity underwriting, by far the most ever booked in a quarter and well over double recent quarterly averages.

The major bracket firms still command the lion's share of all syndications, nearly 90% of the volume by the top 10 underwriters, but this year's action was so heady that it spread the bonanza all the way down to the bottom bracketed firms. In fact, many Regional firms' second quarter profit boosts were principally from underwriting,

although mutual fund sales also helped while commission revenue eased slightly from the first quarter's highs.

INDUSTRY UNDERWRITING REVENUE



And though the focus here is on domestic markets, the securities industry was similarly rewarded by a capital markets boom worldwide. Global issuers pushed 1991's nine-month totals for Eurobonds and international equity sales to the brink of 1989's full-year volume records for these markets. And, as an upcoming issue of SIA's *Foreign Activity Report* will show, the global party is not limited to just the capital markets arena. Domestic commission revenue growth is being partly fueled by a growing appetite of U.S. investors for foreign equities. By May, U.S. investors had snapped up more foreign stocks than they had previously in any full-year.

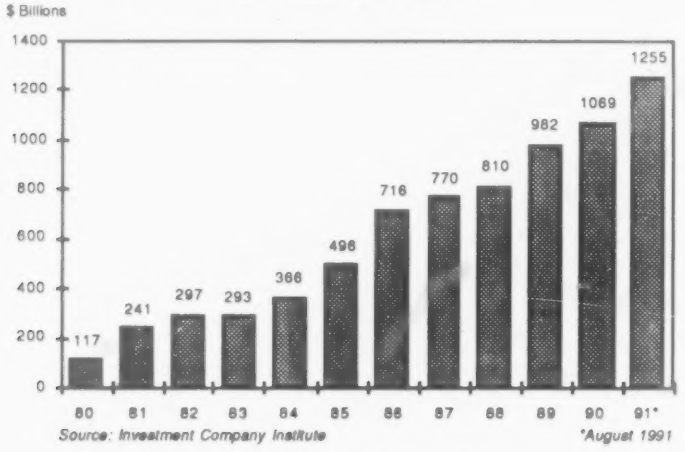
MUTUAL FUND PHOENIX

With the return of the individual investor this year, came growth in all retail areas. We've already seen some of retail's impact -- commissions, OTC trading, and underwriting, as end buyers of equities and municipal bonds underwritten. However, as seen in previous issues of *Trends*, retail investors have gradually shifted a large portion of their financial assets toward managed accounts and away from direct investment and ownership.

Individual's directly hold just over half of U.S. stocks outstanding, down from 85% less than three decades ago. The lion's share of individuals' investment today is through professionally managed vehicles. A good portion of the household sector's total worth is vested in pension plans, mainly invested in stocks and bonds, even

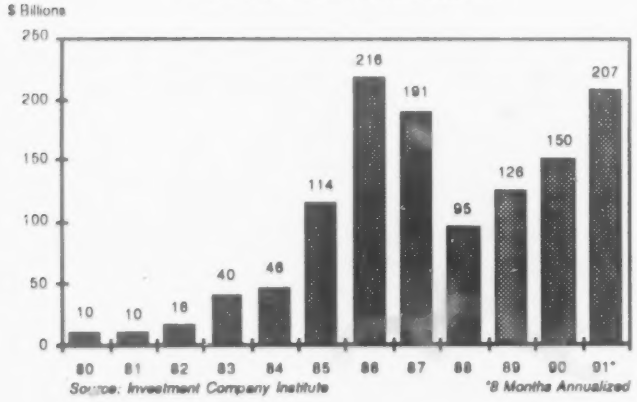
though individuals do not directly contribute funds nor partake in the subsequent investment decisions. But individuals have substantially increased the amount of savings which they direct to managed accounts, mainly mutual funds. According to the *Investment Company Institute*, total assets in mutual funds rose 1,000% in the past decade to $1.3 trillion.

MUTUAL FUND ASSETS

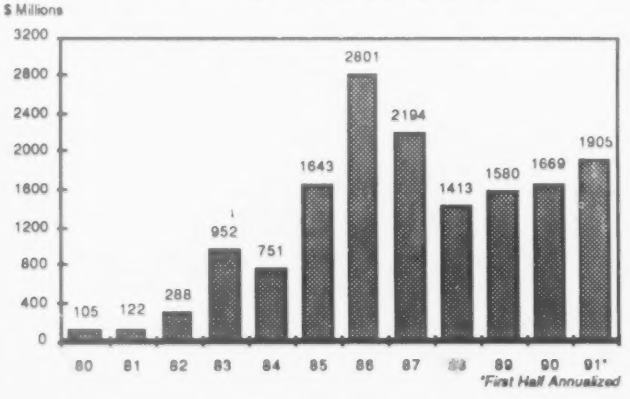


Total sales of mutual funds peaked in 1986 and were headed through the roof towards a new record in 1987 when that nasty little event, October 19, came along. Post-crash, sales went through the floor. Net sales, purchases less redemptions, fell to almost "0" in 1988. As retail investors gradually wet their feet in the late-Eighties' equity market, sales of funds again ascended. As seen in the following charts, mutual fund sales are climbing toward their previous highs while revenue therefrom continues to mount.

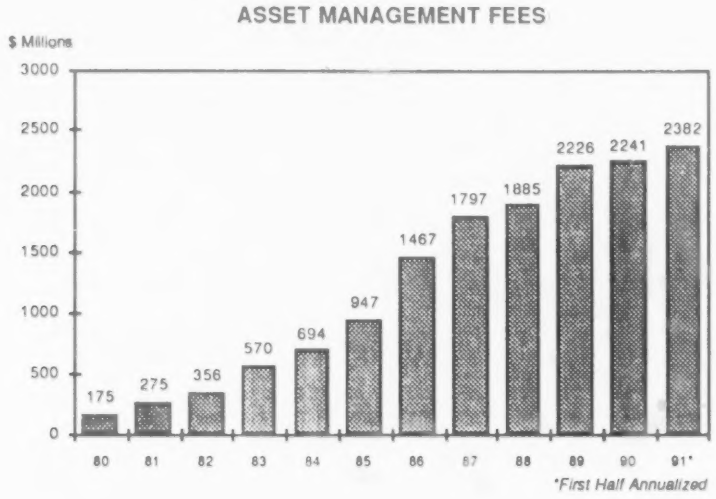
MUTUAL FUND TOTAL SALES



MUTUAL FUND SALE REVENUE



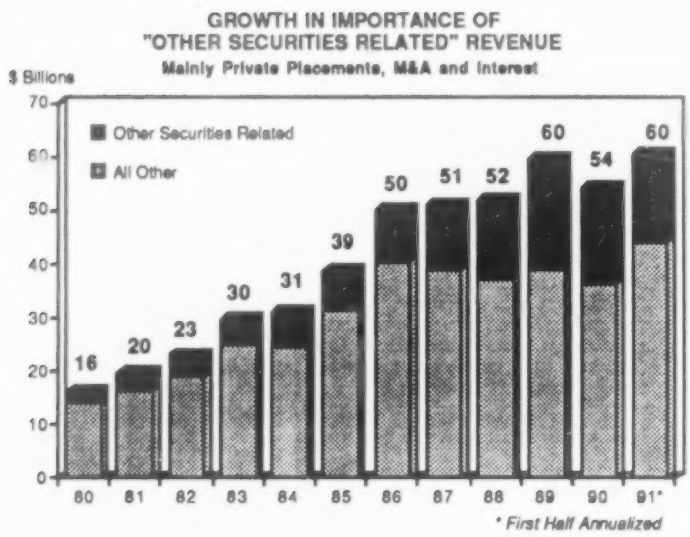
Other managed accounts, particularly the popular and blossoming "wrap account," are being introduced by many firms in order to earn steady fee income while servicing client demand for professional investment management. The big assist that these fees are now giving the bottom line is depicted below in "asset management fee" revenue growth.



OTHER REVENUE RELATED TO THE SECURITIES BUSINESS

The importance of private placements, M&A fees, and interest income to the securities industry's profitability during the Eighties was enormous. As explained in previous issues of *Trends*, the securities industry's regulatory report (the FOCUS Report) does not allow for separate analysis of these categories – they are aggregated as one in the revenue line, "other revenue related to the securities business."

Let's look at these three revenue sources as one for a moment. The chart below shows that from 1980 to 1986, all sources of revenue were growing rapidly – total revenue exploded four-fold from $16 billion to $60 billion. Meanwhile, "other-related" revenue (privates, M&A and interest) exploded over five-fold, going from under $2 billion to over $10 billion from 1980 to 1986 (dark section of the bars below).



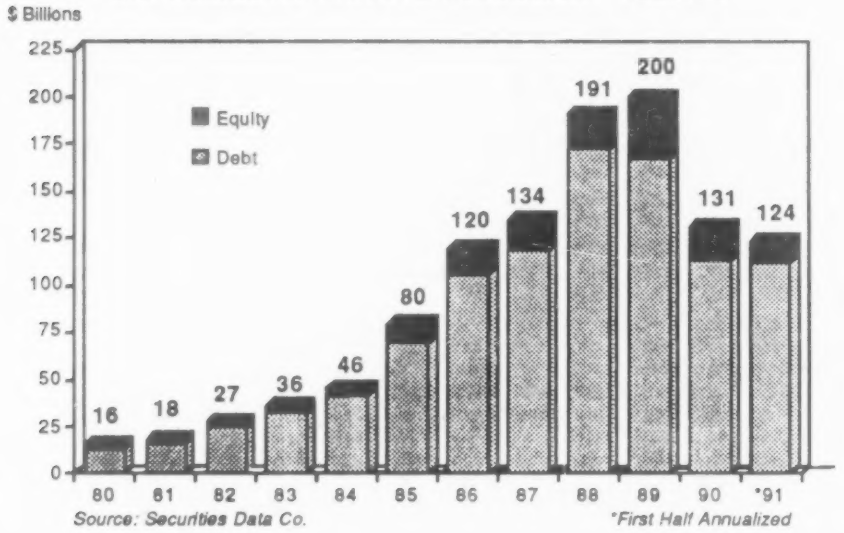
Over the next five years, through the end of last year, these three revenue sources accounted for *all* of the securities industry's revenue growth; in fact, all other revenue sources fell during this post-Crash environment. These same three revenue sources skyrocketed to over $20 billion by 1989 and equalled *more than one third of all revenue* for the securities industry. But the growth ended last year. These revenues fell to $17 billion in 1990 while this year they are running at an even lower $16 billion annual pace, down to 27% of total revenue.

This reversal of the long-term growth trend matches the trend reversal of the three same revenue components. Private placements, as we'll see in a minute, are down for the second straight year. M&A fees and junk bonds, their driving force, have also been stricken in recent years. Finally, interest revenue is now falling, partly due to the lowest interest rate environment in 18 years.

PRIVATE PLACEMENTS LOSE LUSTER

After decades of relative obscurity, the volume of domestic private placements (securities placed with large accredited investors and exempt from SEC registration) skyrocketed in the Eighties and crested at $200 billion in 1989. In just two years time, however, the volume of private placements has been cut nearly in half.

U.S. DOMESTIC PRIVATE PLACEMENT VOLUME



Source: Securities Data Co. **First Half Annualized*

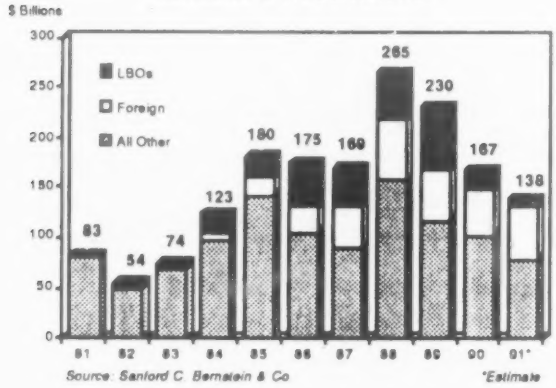
Several factors came together last year to assist in the 35% decline in private placement volume. Acquisition-related financings and junk bond offerings screeched to a virtual halt in late 1988. ESOP-related financings were curtailed by IRS rule-tightening. These areas of private placements all fell 50% to 70% in 1990. Further, issuers have favored the public markets in 1991. Both debt and equity public underwritings are reaching record levels this year. The annualized volume figures shown above may turn out to be too rosy -- indications are that private placements slowed substantially since the summer and 1991's final tally may be the lowest since 1985.

One growth area this year is the new Rule 144A private offerings. Since Reed International's $100 million note sale launched this market last April (after SEC adoption of the rule), the market's shown signs of taking off. About 14% of this year's private placement volume comes from 144A and a much higher 44% of all equity deals are completed under the ruling. One of the rule's intentions was to entice foreign issuers to bring to the U.S. private markets deals otherwise done overseas to avoid the added costs and time in U.S. registered public offerings. In this regard, it has been a success. Big names from several continents which have tapped this market to date include: British Aerospace, Toyota, Sony, Samsung, BMW, etc. Further, the British invasion at 144A's onset, while not over, is being supplemented by transactions from mainland Europe, Asia, and most recently, Mexico.

The 144A market was not the only area being fueled by foreigners. The only growth in merger and acquisitions (M&A) came from abroad. The LBO arena was dead for the second straight year. The reverberations from late 1989's shakeout in the junk bond market are still being felt today.

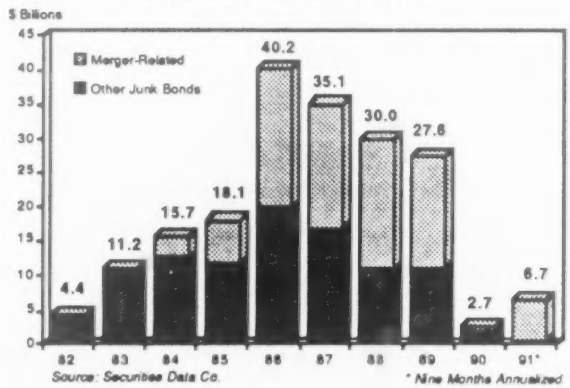
The downward sloping "other securities related" revenue line is impacted by the drop off in both previously mentioned subsectors -- private placement and M&A fees. However, the third component, interest, which probably accounts for 50% to 75% of the "other revenue line," is more difficult to track. Margin interest revenue, however, peaked in 1989 and has fallen just as steadily as "other revenue related," private placements and M&A. The balance of the interest question, both income and costs, is discussed below.

MERGERS & ACQUISITIONS



Source: Sanford C. Bernstein & Co *Estimate

JUNK BONDS UNDERWRITTEN

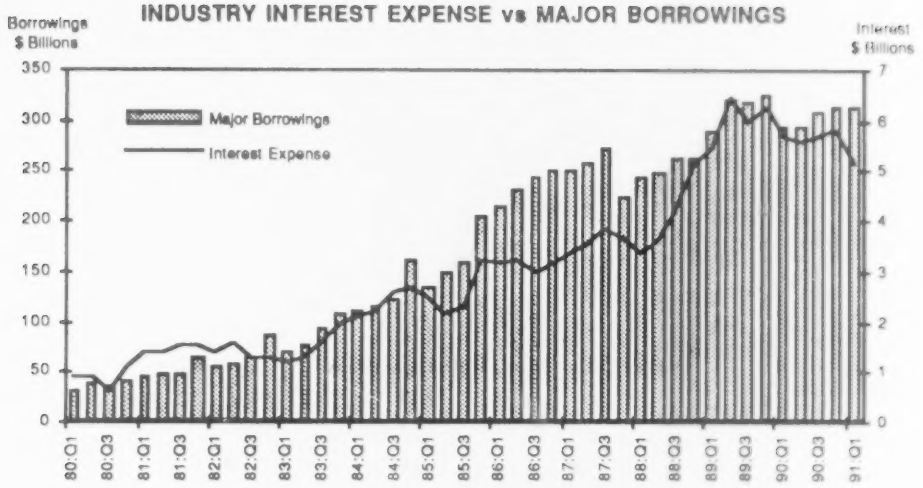


Source: Securities Data Co. * Nine Months Annualized

MANAGING INTEREST INCOME

Until 1989, gross interest expense was by far the fast rising cost item on the securities industry's income statement. Not only did gross interest expense rise six-fold in the Eighties, but from just 1Q-88 to 4Q-89 (and 1990), interest skyrocketed from 28% to 43% of total expenses. Until mid-year 1989, the major borrowing items on the industry's balance sheet (reverse repos, bank loans, subordinated debt, and notes and mortgages payable) likewise exploded to over $300 billion.

These liabilities were incurred to fund rapid expansion during the Eighties and were incurred in what was generally a deflationary, descending interest rate environment. During the largest interest cost escalation in 1988 and 1989, however, we were in a rising rate scenario.



Major borrowing levels were reduced early last year, as industry consolidation, firms closings and mergers, and cost control measures impacted the industry balance sheet. The reduced liabilities combined with falling interest rates reversed the perennially upward sloping interest expense line. This year's bull market witnessed an expansion in major borrowings to finance expanding business. Several interest rate reductions have kept gross interest costs in check. Naturally, any further rate cuts will keep this critical cost contained while a rising rate will spike up expenses.

Of course, interest expense is only one side of the coin. Securities industry management must manage interest income. Rising or falling interest rate environments can have various impacts on securities firm earnings. Rates certainly impact bond prices which affect investment gains & losses and trading profits; they also impact customer financing rates, borrowing costs, etc.

Although the raw data does not allow detailed analysis, it is widely agreed that falling rate environments are profitable for the securities industry and that the industry earns positive net interest income.

COMPENSATION COSTS

The industry's largest non-interest expense is compensation. Compensation costs averaged 40% to 50% of all costs (including gross interest) during the Eighties, up until the Crash. This cost item fell to 38% in 1988 and then to 33% in 1989 and 1990. So far this year, it is up to 38% of all expenses.

Part of the reason for 1989's and 1990's percentage drop is directly attributable to the explosion in interest and its resultant larger piece of the total expense pie. With gross interest expense netted out, over the past dozen years compensation accounted for 56%-61% of all other expenses (net expenses).

Cost control measures since the crash, particularly headcount related, had an impact. Prior to 1989, compensation was 60% of net expenses throughout the 1980s; last year it fell to 56%. Compensation also fell 6% to $17.7 billion, 13.8% below 1987's peak level of $20.6 billion. Employment was trimmed a higher 19.4% over this same time frame also.

This year, compensation is running at an annualized pace of $20.5 billion, a 16% jump from last year. Much of the increase is from higher RR payouts related to higher commissions. Both RR compensation and commission revenue are up 20% this year, on an annualized basis. All other compensation costs are up a lesser 13% this year.

RR compensation, adjusted for inflation, shows managerial controls even in this active year. The last two very active years were 1986 and 1987. In constant 1982 dollars, commission revenue (annualized and also adjusted to 1982 dollars) is running 22% below the 1986-87 average. Also, average employment this year is down 18% from the same period. However, annualized 1991 RR compensation is running 25% below average 1986 and 1987 RR compensation, adjusted for inflation.

"All other" compensation costs (those beyond RR comp) inevitably show large first quarter increases reflecting accrued year-end firm-wide bonuses paid out in Q1. This year was no exception -- all other comp rose 22% to just over $3 billion in the first quarter but eased sightly in Q2. Again, on an annualized basis, other compensation is running 13% ahead of last year, a tad above revenues' 12% growth rate.

Some of the increase in compensation, of course, came from the turnaround in securities industry employment. All "major groups" of firms, with the exception of the Large Investment Banks showed increased employment in Q2, the first upswing since the Crash. The net industry-wide gain was under 3%, a welcome respite, following 20% cuts the past three years, indicating that, at least, the industry consolidation and contraction may finally be over.

COST CUTTING STILL WORKING FOR OTHER MAJOR EXPENSES

Other than compensation, all other major expense areas are benefitting from the cost cutting programs implemented during the past few years. We've already seen how interest expense is still headed down. One area where competitive pressures have kept transaction costs down is total floor costs -- floor brokerage, commissions and clearance fees. After peaking at $2.2 billion in 1987, floor costs have been running at 1986 levels of $1.7 billion the past four years, even with 1991's much increased volume relative to the past three years.

Communications costs, EDP expenses, promotional costs, occupancy and equipment costs, each have straight-line downward trends since their peaks in 1987, including more improvement in the first two quarters of this year. Each is down about 5% (annualized) from 1990. These expenses can be tracked, budgeted and slashed, when necessary. Even occupancy costs, which often are fixed-budgets for years to come, have benefitted from the glut of office space. Of course, as mentioned earlier, the level of expenditures for these areas should contract solely from the consolidation in the number of firms since the crash.

Losses from error accounts and bad debt have returned to their historic low levels. Only the 1987 crash and 1989 mini-crash showed unusual upticks in loss accounts. Government, as always, does not lower its demands. In the tax area, state and city governments are becoming creative and pro-active in extracting more and more revenue from all service industries. Regulators, including state securities administrators, are taking a bigger bite each year. Regulatory fees will hit a record $443 million this year if the first half annual pace of 4% increases continue. This item only reflects what is reported on FOCUS but is useful in supporting a trend that industry observers are very sensitive to. Actually, last year was the only year where this expense fell -- a 2% decrease.

The long string of post-crash special charges seems to be over. Most of these non-recurring charges were associated with "one time" downsizing costs but also reflected special charges in other areas. All in all, total expenses for the year look flat, about the same as last year's $54 billion on an annualized basis. Considering the better business climate -- good vs disastrously poor -- the industry should be in good shape by the time the year winds down.

Management must, however, keep an ever present eye on costs. Where improvement can still be made is in the largest non-interest expense -- compensation. Over the past three years, much has been done in this area but these costs are on the rise again. Of course, more active markets and additional hiring necessarily puts upward pressure on this cost line. Still, the industry can continue to implement more profit-based (vs current revenue-based) compensation packages; tie compensation to firm-wide performance; use stock or phantom stock in lieu of cash bonuses; tie broker compensation to asset gathering and portfolio performance, and other packages now being tested or implemented. If this trend continues, and today's new-found grip on costs is not relaxed, industry profitability can only benefit.

George R. Monahan
Director of Industry Studies

NOTE

The format of the following *Trends* Statistical Section has been changed beginning with this issue. To improve its usefulness to our readership, we have provided more comprehensive information on the U.S. capital markets, stock market, and mutual fund activity.

If you have any questions or comments on the contents of the *Trends* Statistical Section, please contact Grace Toto at SIA, 120 Broadway, New York, NY 10271.

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $Billions)

	Straight Corporate Debt	Convertible Debt	Asset-Backed Debt	TOTAL DEBT	High-Yield Bonds	Common Stock	Preferred Stock	TOTAL EQUITY	All IPOs	"True" IPOs	Closed-End IPOs	TOTAL UNDERWRITINGS
1980	36.7	4.4	0.5	41.6	1.4	12.8	3.2	16.0	1.4	1.4	--	57.6
1981	35.1	4.7	0.5	40.3	1.5	13.9	1.7	15.6	3.1	3.1	--	55.9
1982	39.5	3.2	1.1	43.8	2.7	14.0	5.4	19.4	1.3	1.3	--	63.2
1983	37.4	6.1	8.4	51.9	7.8	37.0	8.5	45.5	12.5	12.5	--	97.4
1984	53.2	4.1	12.1	69.4	15.2	9.2	4.0	13.2	3.9	3.8	0.1	82.6
1985	76.4	7.5	20.8	104.7	15.7	24.7	8.6	33.3	8.5	8.4	0.1	138.0
1986	149.8	10.1	67.8	227.7	33.3	43.2	13.9	57.1	22.3	18.1	4.2	284.8
1987	117.8	9.9	91.7	219.4	30.5	41.5	11.4	52.9	24.0	14.3	9.7	272.3
1988	120.3	3.1	113.8	237.2	30.0	29.7	7.6	37.3	23.6	5.7	17.9	274.5
1989	134.1	5.5	135.3	274.9	27.6	22.9	7.7	30.6	13.7	6.1	7.6	305.5
1990	106.9	4.8	178.9	290.6	2.7	19.2	4.7	23.9	10.1	4.5	5.6	314.4
1991												
Jan	10.2	0.4	14.1	24.6	0.4	1.3	0.0	1.3	0.8	0.7	0.1	25.9
Feb	17.7	0.6	18.3	36.6	0.4	2.0	0.3	2.4	0.7	0.1	0.5	39.0
Mar	16.6	1.3	24.0	41.9	0.2	3.5	1.3	4.8	1.2	0.7	0.5	46.7
Apr	20.7	0.7	22.7	44.0	2.4	6.4	0.8	7.1	1.4	0.9	0.5	51.2
May	14.6	0.7	28.7	44.0	0.7	7.9	1.7	9.5	2.0	1.5	0.6	53.5
June	14.0	1.0	27.1	42.1	0.8	4.9	1.9	6.8	2.3	2.2	0.8	49.0
July	8.8	0.5	22.8	32.1	0.6	3.7	0.3	4.0	2.4	1.3	0.2	36.2
Aug	16.6	0.5	29.0	46.1	0.6	2.6	2.1	4.7	1.7	0.6	0.4	50.8
Sept	15.5	0.3	31.9	47.8	0.7	4.4	1.3	5.7	2.5		1.9	53.4
Oct												
Nov												
Dec												
Y-T-D	134.7	6.0	218.5	359.3	6.7	36.7	9.7	46.4	14.9	9.3	5.6	405.7
Prior YTD	74.7	4.1	138.2	217.0	2.4	16.1	3.7	19.8	8.5	4.3	4.2	236.8
% Change	80.3%	47.6%	58.2%	65.6%	181.4%	127.7%	162.4%	134.2%	75.7%	115.8%	33.9%	71.3%

Note: High-yield bonds is a subset of straight corporate debt.
IPOs is a subset of common stock; "true" and closed-end fund IPOs are subsets of all IPOs.

Source: Securities Data Company

MUTUAL FUND SALES
($ Billions)

Year	Equity Total Sales	Equity Net Sales	Bond & Income Total Sales	Bond & Income Net Sales	TOTAL Total Sales	TOTAL Net Sales
1980	5.4	0.2	4.5	1.6	10.0	1.8
1981	5.8	1.0	4.0	1.2	9.7	2.2
1982	8.0	3.2	7.7	5.0	15.7	8.2
1983	22.1	13.2	18.2	12.4	40.3	25.6
1984	20.3	9.4	25.5	16.5	45.9	25.8
1985	30.1	11.9	84.2	68.6	114.3	80.6
1986	57.7	30.5	158.1	118.3	215.8	148.8
1987	72.1	31.9	118.6	42.5	190.6	74.4
1988	31.0	-3.8	64.3	6.6	95.3	2.8
1989	54.5	16.2	71.2	17.9	125.7	34.1
1990	71.7	25.7	78.6	25.6	150.4	51.3
1991						
Jan	5.3	1.0	8.1	3.5	13.4	4.5
Feb	5.7	2.1	8.2	4.1	13.9	6.2
Mar	6.9	2.4	8.9	4.4	15.8	6.7
Apr	9.2	3.9	11.2	6.3	20.4	10.2
May	7.5	2.9	10.7	6.3	18.3	9.3
June	7.0	2.8	9.9	5.4	17.0	8.2
July	8.3	3.7	11.1	6.7	19.4	10.3
Aug	7.8	3.1	12.2	7.3	20.0	10.5
Sept						
Oct						
Nov						
Dec						
Y-T-D	57.8	21.9	80.4	44.0	138.2	65.9
Prior YTD	51.1	18.8	53.3	18.4	104.4	37.2
% Change	13.2%	16.8%	50.7%	138.9%	32.3%	77.3%

MUTUAL FUND ASSETS
($ Billions)

Year	Equity	Bond & Income	Short-Term*	TOTAL ASSETS
1980	24.0	16.8	76.4	117.2
1981	39.0	16.2	186.2	241.4
1982	51.4	25.5	219.8	296.7
1983	75.8	37.8	179.4	293.0
1984	83.1	49.6	233.6	366.3
1985	116.9	134.8	243.8	495.5
1986	161.5	262.6	292.2	716.3
1987	180.7	273.2	316.1	769.9
1988	194.8	277.5	338.0	810.3
1989	249.0	304.8	428.1	982.0
1990	245.4	324.5	499.0	1,068.9
1991				
Jan	258.4	331.9	535.4	1,125.7
Feb	279.7	336.8	550.0	1,166.5
Mar	287.1	342.4	551.7	1,181.3
Apr	292.4	354.7	549.9	1,196.9
May	309.4	362.5	548.4	1,220.2
June	296.6	365.0	532.8	1,194.5
July	312.6	376.9	536.4	1,226.9
Aug	323.4	390.5	540.9	1,254.8
Sept				
Oct				
Nov				
Dec				
Y-T-D	323.4	390.5	540.9	1,254.8
Prior YTD	243.8	310.9	484.7	1,039.4
% Change	32.6%	25.6%	11.6%	20.7%

* Money market and short-term municipal bond funds

Source: Investment Company Institute

STOCK MARKET PERFORMANCE INDICES

(End of Period)

	Dow Jones Industrial Average	S&P 500	NYSE Composite	Amex Market Value	NASDAQ Composite
1980	963.99	135.76	77.86	174.50	202.34
1981	875.00	122.55	71.11	160.32	195.84
1982	1,046.54	140.64	81.03	170.30	232.41
1983	1,258.64	164.93	95.18	223.01	278.60
1984	1,211.57	167.24	96.38	204.26	247.35
1985	1,546.67	211.28	121.58	246.13	324.93
1986	1,895.95	242.17	138.58	263.27	348.83
1987	1,938.83	247.08	138.23	260.35	330.47
1988	2,168.57	277.72	156.26	306.01	381.38
1989	2,753.20	353.40	195.04	378.00	454.82
1990	2,633.66	330.22	180.49	308.11	373.84
1991					
Jan	2,736.39	343.93	187.59	317.54	414.20
Feb	2,882.18	367.07	200.70	346.13	453.05
Mar	2,913.86	375.22	205.30	359.20	482.30
Apr	2,887.87	375.35	205.37	360.76	484.72
May	3,027.50	389.83	212.99	371.99	506.11
June	2,906.75	371.16	203.47	358.12	475.92
July	3,024.82	387.81	212.34	368.28	502.04
Aug	3,043.60	395.43	216.69	372.13	525.68
Sept	3,016.77	387.86	213.34	374.58	526.88
Oct					
Nov					
Dec					
Y-T-D	3,016.77	387.86	213.34	374.58	526.88
Prior YTD	2,452.48	306.05	167.85	307.72	344.51
% Change	23.0%	26.7%	27.1%	21.7%	52.9%

STOCK MARKET VOLUME

(Daily Average, Millions of Shares)

	NYSE	AMEX	NASDAQ
1980	44.9	6.4	26.4
1981	46.9	5.3	30.9
1982	65.1	5.3	33.3
1983	85.3	8.2	62.9
1984	91.1	6.1	59.9
1985	109.2	8.3	82.1
1986	141.0	11.8	113.6
1987	188.9	13.9	149.8
1988	161.5	9.9	122.8
1989	165.5	12.4	133.1
1990	156.8	13.2	131.9
1991			
Jan	165.3	10.9	133.0
Feb	224.9	16.6	174.9
Mar	195.0	15.3	180.2
Apr	182.3	13.1	187.3
May	170.1	11.0	153.7
June	163.0	11.5	142.5
July	157.2	10.5	140.9
Aug	171.5	12.5	152.6
Sept	162.3	13.4	159.2
Y-T-D	176.2	12.7	157.9
Prior YTD	157.3	13.9	136.5
% Change	12.0%	-8.5%	15.7%

U.S. PRIVATE PLACEMENTS
(In $ Billions)

MUNICIPAL BOND UNDERWRITINGS
(In $ Billions)

	Debt	Equity	TOTAL PRIVATES	Competitive Revenue Bonds	Negotiated Revenue Bonds	TOTAL REVENUE BONDS	Competitive G.O.s	Negotiated G.O.s	TOTAL G.O.s	TOTAL MUNICIPAL BONDS
1980	13.8	1.9	15.7	5.8	23.8	29.6	10.4	1.3	11.7	41.3
1981	16.3	1.5	17.8	4.1	25.8	29.9	9.5	1.2	10.7	40.6
1982	25.9	1.5	27.4	5.4	48.0	53.4	14.2	2.9	17.1	70.5
1983	32.7	2.9	35.6	6.2	54.5	60.7	11.4	4.8	16.2	76.9
1984	42.3	3.6	45.9	5.9	69.5	75.4	12.6	7.1	19.7	95.1
1985	70.4	9.3	79.7	10.2	150.8	161.0	17.6	22.8	40.4	201.4
1986	107.1	12.4	119.5	10.0	92.6	102.6	23.1	22.6	45.7	148.3
1987	119.9	14.5	134.4	7.1	64.4	71.5	16.3	14.2	30.5	102.0
1988	172.7	17.9	190.6	7.6	78.1	85.7	19.2	12.7	31.9	117.6
1989	168.5	31.5	200.0	9.2	75.8	85.0	20.7	17.2	37.9	122.9
1990	113.6	17.5	131.1	7.6	78.4	86.0	22.7	17.5	40.2	126.2
1991										
Jan	8.9	0.5	9.3	0.9	4.3	5.2	1.6	0.9	2.5	7.7
Feb	6.0	1.1	7.1	0.2	6.1	6.3	3.3	2.3	5.6	11.9
Mar	10.1	0.6	10.7	0.7	6.3	7.0	2.0	2.0	4.0	11.0
Apr	9.0	1.4	10.4	1.1	7.1	8.2	2.2	1.4	3.6	11.8
May	6.7	1.0	7.7	1.2	9.3	10.5	2.8	2.0	4.8	15.3
June	15.4	1.2	16.6	1.1	11.3	12.4	3.0	2.7	5.7	18.2
July				0.8	7.9	8.7	2.7	1.4	4.1	12.8
Aug				1.1	10.4	11.4	3.0	3.2	6.3	17.7
Sept				1.0	7.7	8.8	1.8	2.5	4.4	13.1
Oct										
Nov										
Dec										
Y-T-D	56.1	5.7	61.8	8.1	70.4	78.5	22.6	18.4	41.0	119.4
Prior YTD	57.6	10.1	67.7	5.5	58.2	63.8	17.2	12.3	29.5	93.3
% Change	-2.6%	-43.1%	-8.6%	46.7%	20.8%	23.1%	31.0%	49.6%	38.7%	28.0%

Source: Securities Data Company

RECENT INTERESTING READING AND STATISTICAL MATERIAL

Item	Description	Source
Report on Management and Professional Earnings	SIA study presents detailed compensation data provided by 57 member firms employing 115,000 individuals. This 361-page report covers 138 management and professional positions including attorneys, auditors, traders, and research analysts. Includes tables indicating 1990 bonuses compared with 1989 levels.	SIA Pam Faber, Surveys Manager $450 to $675 based on firm size
Report on Office Salaries	SIA study presents data on 79 non-exempt positions in 57 SIA member firms employing over 86,000 individuals. Job categories include secretarial, sales assistant, administrative, clerical and operations position. This 217-page report presents average, median, and percentile figures as of 5/1/91 for cities covered and compares current data to comparable 1990 figures.	SIA Pam Faber, Surveys Manager $450 to $675 based on firm size
Corporate Financing-- 3rd-Quarter Rankings	Activity in some markets slowed a bit in the third quarter, but 1991's momentum has already pushed the year to a record domestic new issue total, $421 billion compared with 1990's full-year $328 billion. Common stock issuance has climbed to $37.0 billion through the third quarter, more than double the $16.1 billion issued in the same period in 1990. Merrill Lynch held on to its top position in lead-managing of all domestic securities, with a market share of 18.2%. Goldman Sachs places second, with an 11.6% share of this year's new issues. Detailed issuance and ranking data for domestic, international and municipal financings.	Investment Dealers' Digest October 7, 1991
Capital Gains Taxes in the Short Run	CBO study focusing on incentive and revenue effects of various types of capital gains rate reductions in the short run. No discussion of policy implications. Two main conclusions: 1. A prospective cut in capital gains taxes (one limited to capital gains on newly purchased	Congressional Budget Office Washington

Item	Description	Source
	assets) would create stronger incentives for investors to realize gains on existing assets than would a retrospective tax reduction applying to all capital gains. 2. A prospective cut could mean a smaller revenue loss. Study will, no doubt, provide fuel for diffusing any momentum for a retrospective capital gains cut.	
Global Financial Markets International Coordination of Automation Risks	GAO examines how international securities and futures markets use or plan to use automation for 3 market functions: order routing and execution, information dissemination, and clearance and settlement in 13 countries. Study finds most markets have automated or plan to automate these functions, but steps to strengthen control over automation risks vary widely in comprehensiveness. Moreover, although several international organizations have addressed aspects of automation, such efforts have lacked the marketwide coordination needed to systematically reduce the risks introduced by automation.	U.S. General Accounting Office P.O. Box 6015 Gaithersburg, MD 20877
"The Bank Credit "Crumble""	Article explores the role played by cutbacks in commercial loan supply in the 1990 economic downturn. A credit "crumble" as opposed to "crunch" results when a decline in the value of classes of bank loans or investments leads to a reduction in either the willingness or capacity of banks to expand their lending. In 1990, both a credit crumble and a shortage of bank capital were affecting a contraction in the supply of commercial loans.	Quarterly Review Federal Reserve Bank of New York Summer 1991
"Services Under Siege -- The Restructuring Imperative"	Foreign competition and deregulation are exposing the U.S. service sector's hidden vulnerabilities: overinvestment in information technology and chronic inefficiency. In other words, Author Stephen Roach notes that the services sector in the 1990s is undergoing the same difficult shrinkage that manufacturing suffered in the 1980s. While it is not too late for the service sector to respond, the author cautions against overzealous cost cutting that comes at the expense of securing long-lasting competitive strength. Indeed, the challenge facing services is primarily managerial -- running the gamut from an appropriate accounting system to exploiting economies of scale.	Harvard Business Review September - October 1991